

Message Text

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ACTION EUR-10

INFO OCT-01 SS-14 ADP-00 NSC-10 NSCE-00 CIAE-00 INR-09

NSAE-00 RSC-01 INRE-00 EB-03 L-02 H-01 PM-03 PRS-01

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P R 210855 Z MAR 73

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC PRIORITY 926

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L THE HAGUE 1315

LIMDIS

PASS WHITE HOUSE FOR AKINS

E. O. 11652: GDS

TAGS: ENRG

SUBJECT: SHELL PROPOSAL FOR ALLOCATION OF OIL SUPPLIES
AMONG CONSUMING COUNTRIES

1. ROYAL DUTCH SHELL CHAIRMAN WAGNER, WHO WAS SEATED NEXT TO ME ON MY FLIGHT TO THE US ON MARCH 3, ASKED ME TO CONVEY TO INTERESTED USG AGENCIES THE FOLLOWING INFORMATION ON CURRENT SHELL THINKING WITH REGARD TO THE ALLOCATION OF AVAILABBLE OIL SUPPLIES WITHIN THE FREE WORLD UNTIL 1990, WHEN SIGNIFICANT ALTERNATIVE SOURCES OF ENERGY WILL HOPEFULLY HAVE BEEN
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DEVELOPED. (THIS CABLE SHOULD BE READ IN CONJUNCTION WITH HAGUE 1292 WHICH REPORTS OFFICIAL GON VIEWS ON SAME SUBJECT. WAGNER AND GON IDEAS DO NOT PRECISELY COINCIDE BUT ARE MUTUALLY CONSISTENT).

2. SHELL PLANNERS HAVE WORKED UP A CONFIDENTIAL PROPOSAL FOR EARLY DISCUSSION WITH KEY EXPERTS IN THE COUNTRIES CHIEFLY INVOLVED. HE SPECIFICALLY MENTIONED DUTCH DIRECTOR GENERAL FOR ENERGY WANSINK, JIM AKINS AND WALTER LEVY IN THE US AND VAILLAUD OF FRANCE. THE ESSENCE OF THE PROPOSAL IS TO ALLOCATE AVAILABLE SUPPLIES OF CRUDE AND PRODUCT THROUGH THE 1980' S AMONG THE THREE PRINCIPAL CONSUMING AREAS, I. E. NORTH AMERICA, EUROPE AND JAPAN. THIS ALLOCATION WOULD BE MADE BY THE OIL COMPANIES, ACTING IN CONCERT AND SUBJECT TO THE APPROVAL OF THE GOVERNMENTS CONCERNED. EACH OF THE THREE AREAS WOULD MAKE ITS OWN SUB- ALLOCATIONS. SHELL PROPOSES THAT EXXON AND BP ACT AS PILOT OPERATORS IN INITIATING THIS SCHEME.

3. THE SHELL PROPOSAL IS BASED ON THE FOLLOWING OBJECTIVES AND PRINCIPLES:

- A. A COMPETITIVE SCRAMBLE FOR OIL BY THE CONSUMING COUNTRIES MUST BE AVOIDED AT ALL COSTS.
- B. THE FREE WORLD MUST BUY TIME FOR AN INTENSIVE WORLDWIDE SEARCH FOR ALTERNATIVE SOURCES OF ENERGY IN THIS CENTURY.
- C. WE MUST GUARANTEE THE PRODUCING COUNTRIES (OPEC) AN AMPLE MARKET FOR THE CRUDE THEY ARE PREPARED TO SELL.
- D. THE CONSUMING COUNTRIES MUST AVOID THE APPEARANCE OF GANGING UP ON OPEC.
- E. AT THE SAME TIME THE CONSUMING COUNTRIES SHOULD MAKE NO SIDE DEALS WITH INDIVIDUAL OPEC MEMBERS, SUCH AS THE SAUDIS.
- F. THE ULTIMATE GOAL IS AN ASSURED UMBRELLA OF OIL SUPPLIES UNDER WHICH INDUSTRIES IN THE CONSUMING COUNTRIES CAN PLAN AND OPERATE.

4. I ASKED WAGNER HOW THE OIL COMPANIES COULD HOPE TO IMPOSE THIS DISCIPLINE ON THE INDIVIDUAL CONSUMER COUNTRIES, ESPECIALLY JAPAN AND FRANCE. HE REPLIED THAT THE OECD COULD PLAY A USEFUL ROLE IN THIS REGARD, AND THAT WITHIN JAPAN THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY HAS DEMONSTRATED ITS ABILITY TO KEEP JAPANESE INDUSTRY IN LINE. HE MENTIONED IN THIS CONNECTION THE POSSIBILITY OF GRANTING ANY NEW EX-CONFIDENTIAL

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PLORATION CONCESSIONS IN ALASKA AND THE ALEUTIANS TO THE

JAPANESE AS A MEANS OF MINIMIZING PIPELINE THROUGHOUT ACROSS ALASKA WITH ATTENDANT ENVIRONMENTAL HAZARDS.

5. I EXPRESSED SOME DOUBT THAT ANY CONSUMER ALLOCATION SCHEME COULD WORK WITHOUT THE AGREEMENT AND COOPERATION OF THE OPEC COUNTRIES. WAGNER WAS NON-COMMITTAL ON THIS POINT BUT WAS CLEARLY CONSCIOUS OF THE NEED TO AVOID ANY APPEARANCE OF CONSUMER COOPERATION WHICH COULD BE CONSTRUED BY OPEC AS HOSTILE. I MENTIONED TO WAGNER THAT DURING MY RECENT HOLIDAY IN THE MIDDLE EAST I HAD A CHAT WITH ANWAR ALI, GOVERNOR OF THE SAUDI MONETARY FUND, WHO HAD STRESSED TO ME THAT IF THE CONSUMING COUNTRIES SHOULD UNITE AGAINST OPEC " THERE WOULD BE TROUBLE." THE ARABS, HE SAID, WOULD FEEL NO COMPUNCTION ABOUT PLAYING ONE CONSUMER AGAINST ANOTHER OR SIMPLY KEEPING THE OIL IN THE GROUND PENDING STILL HIGHER PRICES.

6. WAGNER MADE TWO OTHER COMMENTS WHICH MAY BE OF INTEREST: (A) IN SHELL' S VIEW THE IPC AGREEMENT WAS AS GOOD AS COULD HAVE BEEN EXPECTED AND THE ALTERNATIVE WAS TO LOSE EVERYTHING WITH NO COMPENSATION, AND (B) AT SOME POINT IN THE 1980' S THE RUSSIANS WILL BECOME NET CONSUMERS OF PETROLEUM.

7. NOTE: THE FOREGOING REFLECTS MY RECOLLECTION OF WAGNER' S REMARKS MADE NEARLY THREE WEEKS AGO. WAGNER HAS SINCE PROMISED TO SEND ME A COPY OF AN INTERNAL SHELL TALKING PAPER WHICH OUTLINES THE COMPANY' S POSITION IN GREATER DETAIL. THIS WILL BE FORWARDED TO APPROPRIATE WASHINGTON AGENCIES AND ANY DISCREPANCIES WITH THIS CABLE WILL BE FLAGGED.
MIDDENDORF

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